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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON DC 20268-0001

ANNUAL COMPLIANCE REPORT, 2013	))	Docket No. ACR2013

REPLY COMMENTS OF MAGAZINE PUBLISHERS OF AMERICA, INC., AND ALLIANCE OF NONPROFIT MAILERS

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Pursuant to Order No. 1935, Magazine Publishers of America, Inc. ("MPA") and the Alliance of Nonprofit Mailers ("ANM") respectfully submit these reply comments. These comments respond to the portions of the initial comments of Valpak Direct Marketing Systems, Inc., and Valpak Dealers Association, Inc. ("Valpak") and the Public Representative that concern the pricing of Periodicals Mail. As in previous Annual Compliance Review proceedings, Valpak contends that the cost coverage of Periodicals mail is unlawfully low. Valpak at 50-51. In a retreat from its comments in several recent Annual Compliance proceedings, however, Valpak does not ask the Commission to order that Periodicals rates be subjected to additional above-CPI surcharges as a remedy.

Valpak's apparent change of posture is consistent with the law. Periodicals Mail is a class of its own, not just a rate category or product. The Postal Accountability and Enhancement Act of 2006 ("PAEA") does not allow the average price increase for any class of mail (as defined in the Domestic Mail Classification Schedule on the date of enactment (*see* 39 U.S.C. § 3622(d)(2)(A)) to exceed inflation except as allowed under section 3622(d)(1)(E) (exigency) or section 3622(d)(2)(C) (unused rate authority)—neither of which applies here. The Commission has acknowledged this limitation repeatedly; the Court of Appeals recognized the same in remanding ACR 2010; and the Commission reaffirmed the same in the remanded proceedings. *USPS v. PRC*, 676 F.3d 1105, 1108 (D.C. Cir. 2012), on remand, Order No. 1427 (Aug. 9, 2012) at 17-19. None of the provisions of Title 39 that Valpak invokes in this year's version of its comments warrant a different conclusion.

MPA and ANM do agree with Valpak that the Postal Service needs to cut its costs to a far greater extent than it has done so far. *See generally* Valpak at 74-82. Likewise, there is considerable merit in the request of the Public Representative that the Commission "direct the Postal Service to continue implementing cost saving and productivity improving measures." Public Representative at 32. It is past time for the Commission to confront directly the elephant in the living room of Periodicals mail pricing: the Postal Service's failure to rein in the out-of-control costs of Periodicals Mail despite large investments in automation equipment by the Postal Service, and large increases in worksharing by periodical publishers and their mail services providers.

COMMENTS

I. THE REPORTED FAILURE OF PERIODICALS MAIL TO COVER ITS REPORTED COSTS GIVES THE COMMISSION NO AUTHORITY TO IMPOSE OR APPROVE ABOVE-CPI RATE INCREASES FOR THE CLASS.

A. For Periodicals Mail, The CPI Cap of 39 U.S.C. § 3622(d) Trumps The Attributable Cost Floor of 39 U.S.C. § 3622(c)(2).

As the Commission knows (and Valpak apparently now recognizes), the failure of a class of mail to satisfy the attributable cost "factor" of Section 3622(c)(2) does not give the Commission authority to impose or approve above-CPI rate increases for the class.

Like the other "factors" and "objectives" of sections 3622(b) and (c), section 3622(c)(2) is subordinate to the "'out-of-bound' lines" established by the CPI-based cap on class prices (§ 3622(d)), the limit on worksharing discounts (§ 3622(e)), and the revenue ceilings for the various categories of preferred mail (§ 3626). Docket No. RM2009-3, *Consideration of Workshare Discount Rate Design*, Order No. 536 (Sept. 14, 2010) at 16-17. *Accord*, *id*. at 36 (emphasis added):

> Quantitative pricing standards are at the top of the statutory hierarchy. Next in the hierarchy are the qualitative "objectives" listed in section 3622(b), followed by the qualitative "factors" listed in section 3622(c). Under this hierarchy, violations of the three quantitative pricing requirements are "out of bounds." The Postal Service has broad flexibility to develop prices to achieve the qualitative objectives and factors of sections 3622(b) and (c) *so long as its prices are "in bounds" because they satisfy these quantitative requirements*.

The Commission reaffirmed this point in its Annual Compliance Determination ("ACD") for Fiscal Year 2010. Rejecting the Public Representative's contention in Docket No. ACR2010 that the attributable cost provision of 39 U.S.C. § 3622(c) stood on equal footing with the CPI-based price cap of section 3622(d), the Commission specifically held that the price cap trumps the attributable cost floor:

> The Public Representative reasons that the statutory price cap and the attributable cost floor provision in section 3622(c)(2) are on equal footing. This is based on the contention that section 3622(c)(2) is a quantitative requirement, notwithstanding its location with the cluster of statutory factors the Commission identified, in Order No. 536, as qualitative….
>
> Section 3622 creates a hierarchy based on "requirements," sections 3622(d) and (e), "objectives," section 3622(b), and "factors," section 3622(c). With the exception of an exigent rate request and use of banked pricing authority, the PAEA's price cap mechanism in section 3622(d)(1)(A) takes precedence over the statutory pricing objectives and factors in sections 3622(b) and (c), even if some of these can be considered quantitative. Therefore, to the extent an objective or factor

> with a quantitative component can be seen as competing with the price cap, the price cap has primacy . . .
>
> [T]he objectives and factors, including those that can be regarded as quantitative operate within the context of the price cap; they are not on an equal footing with it. However, giving precedence to the price cap does not render the attributable cost floor provision inconsequential. It advances the section 3622(b)(5) objective of assuring adequate revenues to maintain financial stability and promotes the recognition of other objectives and factors. Consequently, the Commission will continue to press for meaningful cost-reduction efforts, examination of costs, and use of pricing flexibility to promote PAEA policies.

FY 2010 ACD (March 29, 2011) at 18-19 (footnotes omitted). Hence, the failure of Periodicals rates to satisfy the attributable cost factor of 39 U.S.C. § 3622(c)(2) does not, without more, make Periodicals mail out of "compliance with" the Act as a whole. As the Commission explained in denying Valpak's request for a finding of noncompliance in the same docket:

> The Commission concludes that the rates for Periodicals do not satisfy section 3622(c)(2), but it does not find FY 2010 Periodicals rates out of compliance with applicable provisions of chapter 36 or regulations promulgated thereunder. A finding that a product (either individually or collectively) fails to satisfy a provision of title 39 does not compel a finding of non-compliance. In making its determination, the Commission must take into account numerous sometimes conflicting considerations.

FY 2010 ACD (March 29, 2011) at 17.

On judicial review of the portion of the Commission's decision dealing with Standard Mail flats, Valpak acknowledged to the Court of Appeals that the Commission's treatment of the Section 3622(d) price cap as a binding constraint on Periodicals prices was consistent with Commission precedent:

> The Commission has found that Periodicals prices cannot lawfully be raised to full cost coverage levels without violating the class-wide price cap.

Brief of Intervenors L.L. Bean, Inc., and Valpak in *USPS v. PRC*, No. 11-1117 (D.C. Cir., filed Dec. 7, 2011) at 25 n. 16. The court agreed with the Commission's reading of Title 39, finding that "the pricing" of Periodicals Mail "is subject to special statutory restrictions" inapplicable to the pricing of Standard Mail flats. *USPS v. PRC*, 676 F.3d 1105, 1108 (D.C. Circ. 2012).

On remand, the Commission reiterated that it faced greater statutory constraints in raising prices for Periodicals mail, as a class, than Standard Mail flats, a subset of a class:

> Moreover, the fact that Periodicals has only two products (Within County and Outside County Periodicals), neither of which covered its attributable costs, limits the opportunity for the Postal Service to improve attributable cost coverage by means of price increases while remaining within the Periodicals class price cap.

Docket No. ACR2010-R, *Annual Compliance Report, 2010*, Order No. 1427 (August 9, 2012) at 17. Because "96 percent of class revenues are provided by Outside County Periodicals, the Postal Services does not have the same flexibility to set prices substantially above the price cap as it does with respect to products within Standard Mail." *Id*. at 18 (citing FY2010 ACD at 94).

The Commission likewise alluded to this legal constraint in its Annual Compliance Review for the Fiscal Year 2011, ACR2011. Rejecting once again Valpak's request for an above-CPI rate increase on Periodicals Mail, the Commission noted, *inter alia*, that "unlike Standard Mail, Periodicals as a class fails to cover costs, thus foreclosing a rebalancing pricing strategy." FY 2011 *Annual Compliance Determination* (March 28, 2012) at 17.

*   *   *

As in past years, Valpak tries to buttress its legal argument with ratemaking provisions of Title 39 other than Section 3622(c)(2). We discuss in turn the "objectives" and "factors" of Sections 3622(b) and (c); the antidiscrimination provision of Section 403(c); the Governors' general postal policies of Sections 101(d) and 404(b); and the enforcement mechanism of Sections 3653 and 3662.

B. Other "Objectives" and "Factors" Of Sections 3622(b) And 3622(c)

Valpak's reliance on various "objectives" and "factors" of 39 § 3622(b) and (c) is misplaced. *Cf*. Valpak at 51 (citing 39 U.S.C. § 3622(b)(1), (2), and (5). As the Commission made clear in Docket Nos. RM2009-3, ACD2010 and ACD2011, *supra, none* of the "objectives" and "factors" of 39 U.S.C. §§ 3622(b) and (c), alone or in combination, override section 3622(d) in the hierarchy of Section 3622. *See* pp. 2-5, *supra* (citing precedent). The CPI-based price cap of section 3622(d) outweighs all of the objectives and factors combined. FY 2010 ACD (March 29, 2011) at 17-19.

C. Section 403(c)

Valpak also claims to find authority for above-CPI increases in 39 U.S.C. § 403(c), which bars "undue or unreasonable discrimination among users of the mails" and "undue or unreasonable preferences to any such user." Valpak at 50. "Discrimination" and "preferences" covered by Section 403(c), however, are limited to price or service differences among mailers and services that are "like" or similarly situated—a concept that is generally considered to be limited to ratepayers within the same rate class. Docket No. MC2012-14 and R202-8, *Valassis NSA*, Order No. 1448

(Aug. 23, 2012) at 33-35; Docket No. C2009-1, *Complaint of GameFly, Inc.*, Order No. 718 (April 20, 2011) at 44-63, remanded on other grounds, *GameFly, Inc. v. PRC*, 740 F.3d 145 (D.C. Cir. 2013); *MCI Telecommunications Corp. v. FCC*, 917 F.2d 30, 39 (D.C. Cir. 1990). Valpak does not explain how it—or any user of other mail classes—is similarly situated with users of Periodicals Mail. It is not. Periodicals Mail is a separate class from all other kinds of mail. It has different costs, demand characteristics and content—most notably in its "educational, cultural, scientific, and informational value to the recipient" under 39 U.S.C. § 3622(c)(11). Hence, differences between the contribution or cost coverage between Periodicals mail and *other* mail classes are governed by the rate reasonableness provisions of Section 3622, not the antidiscrimination provision of Section 403(c).

D. Sections 101(d) and 404(b)

Valpak's reliance on 39 U.S.C. §§ 101(d) and 404(b) is also unfounded. Valpak at 50-51. Section 101(d), which was added to Title 39 by the Postal Reorganization Act of 1970, establish a "policy" that postal rates "shall be established to apportion the costs of all postal operations to all users of the mail on a fair and equitable basis" and "shall not be apportioned to impair the overall value of such service to the people." Section 404(b) provides that:

> Except as otherwise provided, the Governors are authorized to establish reasonable and equitable classes of mail and reasonable and equitable rates of postage and fees for postal services in accordance with the provisions of chapter 36. Postal rates and fees shall be reasonable and equitable and sufficient to enable the Postal Service, consistent with best practices of honest, efficient, and economical management, to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States.

These general policy desiderata are incorporated by reference into pricing in the catch-all "factor" of Section 3622(c)(14). Like Section 3622(c)(2), Section 3622(c)(14)—and, through it, sections 101(d) and 404(b)—are subordinate to the CPI cap on class-average price increases imposed by Section 3622(d). *See* pp. 2-5, *supra*; 39 U.S.C. § 404(b) (first four words).

This conclusion is buttressed by the protean character of Sections 101(d) and 404(b). A directive to "apportion" overall costs in a way that is "fair and equitable" and does not "impair the overall value of such service" is essentially a directive to charge "just and reasonable rates," a broad and general requirement. *See*, *e.g*., *National Ass'n of Greeting Card Publishers v. USPS*, 462 U.S. 82526 (1983); *Verizon Communications Inc. v. FCC*, 535 F.2d 467, 501-502 (2002). Likewise, the portion of Section 404(b) quoted by Valpak (that postal rates and fees should generate revenues sufficient "to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States") is a generic statement of the goal of public utility rate regulation. To give these provisions priority over the specific CPI-based cap imposed by Section 3622(d) would violate the basic rule of construction that "the specific governs the general," particularly where "Congress has enacted a comprehensive scheme and has deliberately targeted specific problems with specific solutions." *RadLAX Gateway Hotel, LLC v. Amalgamated Bank*, 132 S.Ct. 2065, 2070-72 (2012) (citations omitted); *accord*, *Mail Order Ass'n of America v. USPS*, 986 F.2d 509, 515 (D.C. Cir. 1993).

The Court of Appeals' finding in *USPS v. PRC*, 676 F.3d 1105, 1108 (D.C. Cir. 2012), that "§ 3622(c) permits the Commission to invoke § 101(d) vis-à-vis market dominant products, at least in extreme circumstances" does not help Valpak here. On remand of ACR2010 from the Court of Appeals, the Commission explicitly declined to construe § 101(d) as a general license for the Commission to "automatically, pursuant to 39 U.S.C. § 3653, find the Postal Service out of compliance and order remedial action . . . any time rates for a product fail to cover attributable costs" (Order No. 1427 at 4). Rather, the "totality of the circumstances presented is critical to Commission evaluations under section 3653." *Id*. Among the factors that the Commission identified as crucial were the

> failure of the Postal Service to address the shortfall by rate increases, cost decreases, or a combination thereof, *despite the capability to do so*; and failure of the Postal Service to provide an adequate explanation for not taking necessary remedial steps designed to ameliorate the cost coverage shortfall.

Order No. 1427 at 9 (emphasis added).

Applying these factors, the Commission specifically rejected Valpak's claim that §§ 101(d) and 3653 warranted above-CPI increases on Periodicals Mail. The Commission explained:

> Because of the special situation presented by the Periodicals class, [Valpak] urged the Commission to find that the Postal Service's pricing policies violate section 101(d) and that Periodicals prices should be increased substantially above the statutory cap . . . [B]ecause 96 percent of class revenues are provided by Outside County Periodicals, *the Postal Service does not have the same flexibility to set prices substantially above the price cap as it does with respect to products within Standard Mail*.
>
> * * *
>
> In the case of periodicals, the Postal Service faces a long-standing situation different than the one presented by Standard Mail Flats. As the Court itself recognized, the pricing of Periodicals is subject to special pricing limitations. 676 F.3d at 1108. Moreover, Periodicals, as a class, and both of the Periodicals products fail to cover costs, thereby limiting the

> opportunity for achieving full cost coverage by price increases within the price cap for the Periodicals class. To the extent permitted by the constraints of that price cap, the Postal Service has increased prices.

Order No. 1427 at 18-20 (emphasis added). *Accord*, *id*. at 17.

E. Sections 3653 and 3662

Nor may a substantive ratemaking standard be bootstrapped from the remedial provisions of 39 U.S.C. §§ 3653 and 3662. Section 3653 is merely an enforcement mechanism, and does not establish substantive ratemaking standards in its own right. The Commission may take action against a rate under section 3653 only if the rate was in noncompliance with the "applicable provisions *of this chapter* [i.e., chapter 36 of Title 39] (or regulations promulgated thereunder)." 39 U.S.C. § 3653(b)(1) (emphasis added). The remedial provisions of 39 U.S.C. § 3662 in turn may be invoked in an annual compliance review proceeding only upon such a finding of noncompliance. *Id*., § 3653(c). Without any independent basis for a finding of noncompliance, no remedial action by the Commission under § 3653 or 3662 is "appropriate" under § 3653(c). *See* FY 2010 ACD (March 29, 2011) at 17 ("Given these considerations, the Commission need not address the scope of remedial powers under section 3653.").

II. THE REAL PROBLEM WITH PERIODICALS MAIL IS NOT THE CPI PRICE CAP, BUT THE POSTAL SERVICE'S EXCESS COSTS.

The undersigned parties agree with Valpak (and the Public Representative) in one respect: the failure of Periodicals Mail to cover reported attributable costs is troubling and a chronic problem. The reported decline in cost coverage lasted for more than a decade until Fiscal Year 2013, when the reported cost coverage of Periodicals Mail rose to 76 percent, four percentage points higher than in Fiscal Year 2012. ACD

2012 at 93; USPS-FY13-1 (reproduced in Public Representative Comments at 31). That the coverage ratio is still below 100 percent is the result of excessive costs, however, not overly-constrained prices. Increases in the reported attributable costs of periodicals have outstripped inflation for years despite (1) Postal Service investment in flats automation and (2) improvements in mail preparation and worksharing by mailers that have greatly decreased the work content of Periodicals Mail. *See also* Valpak Comments at 74-82.

Despite significant USPS investments in flats automation and growth in mailer worksharing, the Postal Service's inflation-adjusted unit costs for the Periodicals class increased by 67 percent from FY 1985 to FY 2013. Calculated from CRA Reports; BLS Series ID CUUS0000SA0. Had the Postal Service simply held the increase in Periodicals unit costs to the rate of inflation during these periods, FY 2013 Periodicals revenue would have easily covered attributable costs.[1]

Rate increases for Periodicals Mail have also exceeded inflation. For example, as shown in the following table, the average increase in Periodicals rates from FY 1996 to FY 2013—74 percent—was substantially higher than (1) the price increase for other classes of mail; *and* (2) the general rate of inflation:

[1] Had the Postal Service held increases in Periodicals unit costs to inflation, FY 2013 Periodicals costs would have been forty percent lower.

Postal Rate Increases v CPI-U (1996-2013)

Fiscal Year	Rate Increases				CPI-U
	First-Class Mail	Periodicals	Standard Mail	Pkg Services	
1997					2.7%
1998					1.6%
1999	2.5%	5.1%	3.0%	1.9%	1.9%
2000					3.2%
2001	3.5%	12.7%	8.4%	8.1%	3.2%
2002	7.9%	10.0%	7.1%	5.0%	1.5%
2003					2.3%
2004					2.3%
2005					3.3%
2006	5.2%	5.1%	5.4%	5.1%	3.7%
2007	7.0%	11.8%	9.3%	12.0%	2.3%
2008	2.9%	2.7%	2.9%	2.9%	4.4%
2009	3.8%	4.0%	3.8%	3.8%	-0.3%
2010					1.7%
2011	1.7%	1.7%	1.7%	1.7%	2.7%
2012	2.1%	2.1%	2.1%	2.1%	2.4%
2013	2.6%	2.6%	2.6%	2.6%	1.5%
1996-2013	46.6%	74.2%	56.8%	54.9%	48.9%

This is a paradoxical trend. As MPA, ANM, and ABM detailed in Docket No. ACR2010, limiting increases in Periodicals unit costs to inflation during this period should not have been difficult. During this period, both automation of the flats mailstream and the amount of worksharing increased, and there were no offsetting trends that should have increased costs. Docket No. ACR2010, Comments of MPA, ANM, and ABM (Feb. 2, 2010) at 8-11.

The trends that should have reduced USPS costs apply with equal or greater force today:

(1) Primarily because of increased comailing, the percentage of Periodicals pieces sorted to the Carrier Route level increased from 44.1 percent in FY 1996 to 65.8 percent in FY 2013. Docket No. R97-1, USPS-LR-H-145; Docket No. ACR2013, USPS-FY13-4, FY13 Periodicals BDs Final FY2013RV.xlsx.

(2) The percentage of Periodicals Outside County volume (in terms of advertising pounds) entered at the Destination Sectional Center Facility ("DSCF") or Destination Delivery Unit ("DDU") increased from 30.0 percent in FY 1996 to 74.2 percent in FY 2013. Docket No. ACR2013, USPS-FY13-4, FY13 Periodicals BDs Final FY2013RV.xlsx.[2]

(3) Between FY 1996 and FY 2012, the Postal Service changed mailing standards to eliminate the use of "skin sacks," a practice identified as significantly driving up Periodicals costs.

> SKIN SACK REDUCTION PROGRAM — Mailing standards will be modified to no longer allow the preparation of certain sacks within Periodicals that contain fewer than the established minimum of 24 pieces…Operational savings will be achieved through a significant reduction in sacks which will result in a reduction in the allied labor associated with processing these sacks.

Docket No. R2005-1, *Postal Rate and Fee Changes, 2005*, USPS-LR-K-49 at 19-20. Primarily because of this change, but also because of an increase in co-mailing, which allows the substitution of pallets for sacks, the number of sacks used to mail Outside

[2] This comparison is focused on DDU and DSCF-entered Outside-County advertising pounds because data are unavailable to compare the percentage destination-entered for the entire class. The destination entry trend for Periodicals as a whole is substantially similar for two reasons: (1) Periodicals Outside-County volumes comprise the vast majority of all Periodicals; and (2) most destination-entered Periodicals are entered at the DSCF.

County Periodicals dropped by 83.8 percent from FY 2004 to FY 2013. Docket No. R2005-1, USPS-LR-K-91, Tables.xls, “Table 3”; Docket No. ACR2013, USPS-FY13-4, FY13 Periodicals BDs Final FY2013RV.xlsx.[3]

Finally, despite its significant investments in flats automation, the Postal Service continues to process a substantial volume of flats manually. A report of the Postal Service Office of Inspector General last year on the costs of processing flat-shaped mail found that, despite investments in mail processing equipment, about 30 percent of flats were processed manually in FY 2011—only a modest improvement in performance from the 33.3 percent figure of FY2003. OIG Report No. MS-AR-13-003, *Flat-Shaped Mail Costs Audit Report* (Jan. 4, 2013). This rate of manual processing is 50 percent above the goal of 20 percent that the Inspector General believes is achievable. The excessive manual processing costs the Postal Service millions of work hours each year. *Id.* at 10, 16.

Valpak has previously cited the findings of the 2011 joint USPS/PRC study on Periodicals costs for the proposition that, “[r]egardless of [cost savings estimates], there will still be a cost coverage gap; without price changes or legislative changes, Periodicals will not be able to cover its costs.” Docket No. ACR2012, Valpak Comments (Feb. 1, 2013) at 127-128 (quoting *Periodicals Mail Study: Joint Report of the USPS and PRC* (Sept. 2011) at 91). Valpak’s reliance on the joint study report is misplaced. In that report, the Postal Service estimated that it could save approximately $146 million per year by reducing manual processing; the Commission estimated that the potential annual savings were $349 million. *Periodicals Mail Study: Joint Report of the USPS*

[3] The USPS also implemented charges for sacks and flats tubs.

and PRC (Sept. 2011). Both figures, however, significantly understate the excess costs that result from the inefficiencies in the current Postal Service systems for processing and delivering periodicals.

This may be confirmed by comparing what the joint study assumes to be efficient operating costs with the Postal Service's *actual* costs in 1985, adjusted for subsequent inflation. The PRC-USPS study shows that despite substantial increases in mailers' worksharing and the deployment of automated flat sorting equipment, the Postal Service's real (i.e., inflation-adjusted) cost of handling Periodicals has increased by nearly *70 percent* over the last 28 years. *Id.* at 8. Even the Commission's estimate of potential cost savings, which is higher than the Postal Service's, would leave the Postal Service's inflation-adjusted cost of handling Periodicals higher than in 1985—despite 28 years of technological advances and vastly increased worksharing by periodical publishers and their mail services providers.[4]

These are not new problems. As the Commission found in its Annual Compliance Determination for Fiscal Year 2012 (at 8):

> For Periodicals, the Postal Service should review its operational strategy to assess what cost savings initiatives are working and how they can be improved. The Postal Service should also review its pricing strategy to determine how to incentivize additional mailings that can be efficiently processed by current or planned operations. Since the current Periodicals pricing structure was implemented in FY 2007, neither the worksharing discounts, nor the sack, bundle or pallet charges have substantially changed.

Id. at 8; *accord*, *id*. at 89, 96-97.

[4] Even if the Postal Service reduced Periodicals costs by $349 million (approximately 17 percent of FY 2013 costs), inflation-adjusted Periodicals unit costs would remain almost 40 percent higher than they were in FY 1985.

As noted above, Periodicals Mail experienced a significant uptick in its reported coverage ratio—from 72 percent to 76 percent—between Fiscal Years 2012 and 2013. This welcome turnaround should not divert attention, however, from the pressing need for the Postal Service to rationalize its excessive capacity and costs.

In this regard, Valpak's claims that noncompensatory products drove the need for the exigent rate increase approved by the Commission a few months ago in Docket No. R2013-11 (Valpak at 8 and 46) are unconstructive and unhelpful. The Postal Service's massive financial problems are due to longstanding cost control problems that were compounded by a massive decline in volume and revenue in most mail classes—caused largely by long-term diversion of communications to the Internet. Furthermore, the Postal Service has not matched the volume losses with corresponding reductions in the Postal Service's network, operations and costs. If the Postal Service's capacity and related costs were properly sized for its current workload, the Postal Service's overall financial picture—and the reported contribution from Periodicals Mail and other supposedly noncompensatory products—would be vastly different.

CONCLUSION

The Commission should give no weight to Valpak's comments about the rates charged for Periodicals Mail, and should instead encourage the Postal Service to rein in its costs for handling this class of mail.

Respectfully submitted,

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